



STATE OF MICHIGAN

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MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY
LANSING

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MEMORANDUM

To: County Allocation Grantees

From: Richard Ballard, Director
Office of Community Development

Date: November 12, 2008

Subject: **2009 Community Development Block Grant (CDBG) County Allocation Grants**

The purpose of this memo is to advise counties of the Office of Community Development's (OCD) priorities for County Allocation Grants for the 2009 funding year. OCD grantees applying for funding at 100 percent of their county allocation need to be expending grant funds in a timely manner and meeting the terms of OCD's leveraging requirements. For current grants expiring July 1, 2008 through June 30, 2009 (most expire on December 31, 2008), the following policies are being announced in this memo:

- APPLICATION PROCESS
- ALLOCATION AMOUNTS AND ELIGIBLE ACTIVITIES
- RENEWAL OF GRANTS AND DETERMINATION OF RENEWAL AMOUNT
- USE OF CDBG FOR BASE ALLOCATION GRANT
- STRATEGIES FOR SPENDING PROGRAM INCOME TO ENSURE TIMELY EXPENDITURE OF CDBG ALLOCATION GRANT FUNDS

I. APPLICATION PROCESS

The application for 2009 CDBG County Allocation funds is currently available via the following web-site: <http://www.mshda-opal.org>. You will need your assigned user ID and password to login to OPAL. All current MSHDA Grantees have been issued a user ID and password. If you do not have these assigned to you, contact your CD Specialist. Once you have logged on there will be a box on the right titled "Initiate an Application", choose "Housing Resource Fund" and follow the grant application process for county allocation funding.

Assuming the 2009 federal budget is approved in a timely manner, **MSHDA will fund CDBG County Allocation eligible grant applications submitted on-line between November 14, 2008 and January 31, 2009** for a 30 month term effective January 1, 2009, or as soon as possible after approval (whichever is later). All renewal grants will expire June 30, 2011, however, it is expected the grant will be substantially expended and all projects set-up prior to December 1, 2010. Applications received after January 31, 2009 are not guaranteed an allocation of 2009 CDBG funds.

If you have any questions, please contact your CD Specialist.



II. ALLOCATION AMOUNTS AND ELIGIBLE ACTIVITIES

HUD's CDBG funding for States is allocated by population size to the non-entitled communities in Michigan resulting in the following potential award amounts for Michigan counties:

<u>Population</u>	<u>Allocation Amount</u>
0 - 5,000	\$100,000
5,001 - 10,000	\$125,000
10,001 - 20,000	\$150,000
20,001 - 30,000	\$175,000
30,001 - 40,000	\$200,000
40,001 - 50,000	\$225,000
50,001 - 60,000	\$250,000
60,001 - 70,000	\$275,000
Over 70,001	\$300,000

Applications for 2009 CDBG County Allocation grant funds may be submitted for the following eligible activities--detailed information regarding each of these components is described in OCD's Housing Resource Fund Summary found on MSHDA's website:

Homeowner Assistance – Funds for this component may be used to improve the principal residence of low-income homeowners for Homeowner Rehabilitation and Emergency Repair activities.

Rental Rehabilitation – This component offers funds to rehabilitate investor owned properties in strategically targeted neighborhoods.

Homebuyer Assistance – CDBG program dollars may be used to fund:

- Deferred loans of up to \$10,000 per unit to households assisted by a local Habitat for Humanity Affiliate;
- Down Payment Assistance without rehabilitation, if MSHDA's Links to Homeownership Program is not locally available;
- Home Purchase with Rehabilitation (HPR) on a county-wide or targeted basis; and/or
- Acquisition Development Resale (ADR). However, new construction would generally be ineligible.

III. RENEWAL OF GRANTS AND DETERMINATION OF RENEWAL AMOUNT

OCD bases its policies for renewal of these grants on the following priorities:

- Promoting the prompt expenditure of grant funds;
- Maximizing the number of units and extent of rehab by maximizing leveraged funds;
- Implementing programs in compliance with Federal regulations and MSHDA policies;
- Preserving CDBG funds for targeted strategies (such as the Neighborhood Preservation Program and Downtown Revitalization).

To implement these priorities, OCD has established the following funding opportunities:

A. 100% Base Allocation

Counties may apply for CDBG renewal grants of up to 100% of their county allocation amount as soon as the following conditions are met:

- The current grant is at least 75% expended (that is, 75% of the grant has been drawn down by the county and paid to contractors for completed work);
- There are no outstanding findings from past or current grants.

Counties that do not meet either of the above requirements may reapply when their current grant is at least 75% expended. However, counties are encouraged to submit applications prior to January 31, 2009, as there is no guarantee the funds will be available after this date.

B. General Requirements for all County Allocation Awards

Projects must be substantially complete and grant funds must be expended (i.e., drawn down and paid to contractors) by the end of the 8th quarter of the grant term (by 12/31/2010 for the 2009 HOA Grant). Funds unexpended after the last day of the grant will be recovered (OCD will allow up to 5% of the grant to be committed but not expended if used for final payments on projects which have reached substantial completion before 12/31/2010). Generally, except in extenuating circumstances, OCD does not plan to approve grant extensions.

IV. USE OF CDBG FOR BASE GRANT

A. Funding sources

Due to difficulties related to allowing counties to keep HOME Program Income, OCD will fund base county allocations with CDBG funds only.

B. PIP-Plus funding with HOME

Last year, in an effort to provide additional homeowner rehabilitation funds to counties who are willing to participate in the MSHDA Property Improvement Program (PIP), MSHDA established a PIP-Plus fund that has been administered by Roscommon County. Roscommon County is the administrator of the fund and all MSHDA CDBG County Allocation Grantees can access the fund. A memo detailing the current status of the PIP-Plus fund will be mailed out to all counties later this month.

V. STRATEGIES FOR SPENDING PROGRAM INCOME TO ENSURE THE TIMELY EXPENDITURE OF CDBG ALLOCATION GRANT FUNDS

MSHDA OCD has observed that many counties are receiving a considerable amount of CDBG Program Income (PI) from the repayment of deferred and monthly loans at the county level. This has had an impact in many cases on the timely expenditures of the county's allocation grant. MSHDA suggests that the county develop a strategy to anticipate the receipt and expenditure of program income. The following are observations and suggestions for the county's consideration:

- The county cannot draw down grant funds if the uncommitted balance of PI exceeds \$5,000.
- The county should estimate the maximum number of projects that they are able to complete with grant funds, leverage dollars, and potential program income and reevaluate marketing strategies, program guidelines and housing activities for the possibility of expanding their client and/or activity base. Following is an example of an average county program:

County XYZ has a \$200,000 base grant. Additionally, the county averages \$50,000 per year in program income. Over the two-year grant term, the county would have approximately \$300,000. The county will need to expend \$300,000 over the course of two years. If the average project cost is \$25,000 per unit, the county will produce 12 homeowner rehabilitation projects over the two-year period.

Several suggestions for increasing/expanding a county's expenditure of project funds include:

- Undertake other eligible CDBG housing activities such as Acquisition Development Resale or Rental Rehabilitation that could help with the expenditure of Program Income.
- Counties could use their new County Allocation for other activities (ADR, Rental Rehabilitation) and use the Program Income as a Revolving Loan Fund (RLF) for homeowner rehabilitation projects.
- Expand program guidelines to include a more stringent housing code standard, or add energy savings products.

If you have any questions, please contact your CD Specialist.

Q & A about this Memorandum:

Q1: The funds in our current grant are exhausted. May we apply for a renewal now?

A: Yes, MSHDA is able to take applications for 2009 county allocation grants as of November 14, 2008

Q2: What happens if we don't spend all our grant funds?

A: Grant funds that have not been committed as of the expiration of the grant term may be recaptured, but will not cause the subsequent grant to be reduced. Grant funds committed but not expended may be recovered by reducing the next grant.

Example: A grantee with \$164,000 in non-admin funds has committed the entire amount by 12/31/08. The grantee has paid \$158,000 to contractors for completed work, but has \$6,000 in final payments to make for work that is substantially complete. Grant funds will still be available; no funds will be recaptured or reduced as long as the projects are completed promptly.

Example: A grantee with \$164,000 in non-admin funds has committed a total of \$150,000, but has expended only \$100,000 in payments to contractors. \$14,000 (the uncommitted balance) may be recaptured from the grant. Their next grant may be reduced by up to \$50,000 (the amount committed for unfinished work), depending on the status of the incomplete jobs.

NOTE: MSHDA will consider the amount of Program Income projects the county has administered before reducing a future grant.

Q3: In the past we have been reporting only required leverage (25%), after 25% we stop reporting. What should we do?

A: In the future, when reporting on OPAL in the Leverage Fund Summary Screen, include under "Leverage" the total of all leverage funds from eligible sources outside your grant that were expended to complete grant-funded projects. You may also include stand-alone PIP loans as leverage.

Q4: But the OPAL Leverage Fund Summary Screen counts only leverage from completed projects. What about leverage on projects that are in progress?

A: Leverage on uncompleted projects but are under contract may be considered with approval from your Community Development Specialist.

Q5: Can we expect an opportunity to apply for increases during a grant term?

A: We do not expect to increase funding beyond 100% of the allocation amount. You should not expend funds substantially ahead of schedule in the hope of getting an increase if such expenditures will (a) create problems in budgeting local administrative costs for the entire two-year period, or (b) result in an interruption in housing services that will cause local public relations problems. You can of course, apply for other funds through the Housing Resource Fund that meet OCD funding priorities.

Q6: Does OCD expect these policies to be in force in future years?

A: Allocation formulas and funding policies change from year-to-year, depending on funding availability and priorities. The policies announced in this memo affect only the groups of grantees as indicated. However, because of other demands on CDBG funds, MSHDA OCD will most likely only fund eligible counties at 100% of the base allocations, beginning with the 2007 funding year, and continuing with this pattern into the foreseeable future.

Q7: OCD is emphasizing targeted projects under its Housing Resource Fund (HRF). Are counties expected to restrict County Allocation projects to target areas?

A: No. Counties may run countywide programs or engage in targeted projects with their county allocation funds.